Chapter 4

ROLE OF PRIVATE CAPITAL FROM INDIA AND INDUSTRIALISATION OF NEPAL.

Historically foreign private investment has played a crucial role as the permanent source of capital for the economic development and industrialisation of a country. Because such inflow of foreign capital has effective impact on an economy through external economies, such as managerial ability, technical personnel, technological knowledge, administrative organisation, innovation in products and production technique and also through direct employment of wage and salary earners, purchase of local materials and equipments and payment of taxes to the local government.[1]

Since the beginning of planning Nepal has been adopting the philosophy of 'mixed economy', i.e., the role of public sector and private sector for the economic development of the country. Under this circumstances, the government of Nepal encouraged private sector - both home and foreign in various fields of manufacturing industries excepting defence-related industries and public utilities.

Private foreign investment has been generally shy in Nepal. Prior to 1950, very few private enterprises took place in Nepal. The factors which slowered private foreign investments in Nepal are chiefly political instability, landlockedness and poor infra-structure facilities, shortage of trained labourers, low purchasing powers and the ineffective government policies.[2]

Incentives and Policies in Nepal regarding Foreign Investment :

Nepal has been trying to take some important measures to encourage foreign investments. Mr. Shrestha of Nepal said that Nepal offered attractive concessions and assured lucrative returns for foreign private investments in his country. He said, besides liberal concessions in corporate taxes, customs and excise duties, investors in Nepal from within or outside the country, would be given foreign exchange facilities for importing plant and machinery and spare parts as well as raw and semi-finished materials for industrial uses. He said, Nepal's Industrial Enterprises and Foreign Investment and Technology Act opened new avenues for private sector investments. All sub-sectors except defence-related goods were completely opened to the private sector.
Mr. Shrestha further said, that the incentives for private investors included five-year income tax holiday for medium and large units manufacturing products whose value added was more than 20 per cent. For every additional 10 units of value added beyond 50 per cent, an additional year of exemption in

income tax would be granted. He also said, large and medium industries would be given exemption in excise duties for a period of three years.[3]

The government of Nepal has evolved a policy for foreign investors providing facilities for foreign exchange, when needed. It is also prepared to lay raw materials at the investor's disposal, and allows a ten-year tax holiday for them. Most attractive of all these facilities given the investors is the provision for taking back home the returns from the investment involved. And the labourers are cheap in terms of wage. Replying to the 'Arab News' of Jeddah on the question of allowing foreign investment in Nepal on October 19, 1983 during an interview, H.M. King Birendra said, 'we welcome foreign investment in any medium and large industrial undertakings other than specified defence production. We also encourage joint ventures with the foreign private investors collaborating with local entrepreneurs'.[4]

It is stated that units having a capital outlay upto Rs.50,000 were left exclusively to private national investors. Those having capital outlay ranging from Rs.50,000 to Rs. 5 lakhs, priority was to be given to Nepalese ownership and management. Industries more than Rs. 5 lakhs, local as well as foreign investors are welcome to take part.[5]

In her First Plan Nepal made it clear that foreign capital was to be encouraged especially in connection with large scale industries subject to the qualifications that it 'will safeguard the independence and integrity of the Nepalese economy and will give adequate assurance to the investors regarding fair return and guarantee'. However, a comprehensive policy was taken in the announcement of Industrial policy in 1957. It specified that all industries other than those manufacturing arms, ammunition and explosives would come under domestic or foreign private enterprises on condition of mutual agreement regarding repatriation of profits and capital. Foreign investment would not be subject to double taxation. The principle of 'mixed economy' was accepted. To fulfil these objectives, the NIDC was set up in 1959.

The Industrial Enterprises Act, 1961 has also guaranteed the foreign investment equality of treatment. Nepal also declared income tax concessions for 10 years, exemptions of export duty to new units, exemptions on import and machinery, parts and raw materials, repatriation of profits and capital upto 25 per cent discount. Services in the form of research, technical assistance and loans are now given by the NIDC.[6]

The Industrial Enterprises Act of March 1974 provided further relief to foreign investors. Unlike earlier concessions, this new act allowed only 10 per cent of the capital and 25 per cent of the profits to be taken back in the form of convertible currency.[7]

A new industrial policy has been enacted in 1981 to remove the shortcomings of the old policy and to make reforms in time. The distinctive features of this new policy are encouragement of the public sector, encouragement of foreign investment, establishment of export promotion zone, import of appropriate technology and priority to the cottage industries.

Foreign investment is said to be encouraged through government protection, no-nationalization pledges, remittance in foreign currency of all profits earned and 20 per cent per annum of invested capital. Prior to this, the foreign industries could remit 90 per cent of the declared profit and 20 per cent per annum of invested capital only after a period of five years. As regards other facilities and concessions, the new policy appears to be more liberal than the old. Under the new policy, the cottage industries can enjoy income tax rebates for six years as against five years earlier. In the case of large industries income tax rebates is said to be based on value added with additional rebates for industries producing necessary goods and export promotion industries. Earlier large industries were allowed income tax rebates for 15 years on the basis of fixed capital investment. In a similar vein, concessions in the custom and excise duties have been extended particularly to industries located in the less developed areas of the country. Unlike the past, the foreign investors are free to invest in the medium and large-scale export-oriented industries in Nepal but restriction is put only on the cottage and small-scale industries.[8]

To attract private sector involvement in industrialisation, the NIDC was targetted to provide assistance in the form of credit and share purchase worth of Rs.502.7 million of which Rs.284.3 million could be invested accounting for 56.6 per cent of the target at the end of the Sixth Plan. During the Seventh Plan period, the NIDC will invest a total of Rs.700 million. The expenditure by the private sector was estimated to be Rs.11,650 million during the Sixth Plan which is expected to reach Rs.21,960 million during the Seventh Plan. HMG even agreed, if needed, to fund for setting up private sector commercial banks during the Seventh Plan period.[9]

<u>Indian Private Investments in Nepal</u> : Prior to 1936 foreign industrial enterprises in Nepal was non-existent and also a very few private foreign investment took place prior to 1950. The industries which sprouted during 1936-1942 were mostly funded by Indian entrepreneurs. Inspired by the war-time profits

they invested large funds in jute, sugar and matches. After the boom of 1942, the general scarcity of consumer goods and prevailing high prices in India led to the establishment of two cotton mills in Nepal. With return to normalcy the boom collapsed and most of the firms went to liquidation. There was already a lack of organised capital-market in Nepal, chiefly because Ranas showed least interest in any technical innovation and to the development of domestic capital investment as they considered them as a source of instability to their regime, and this new change created crisis and concomitent loss of confidence among the Indian investors.[10] Indian firms recaptured markets in India and in Nepal, and the Nepalese firms, which had not ploughed back any of their profits for modernisation of equipment, began to go bankrupt. A few survived, but their operations were marginal and their profits lean. As a result, investor's confidence was shattered. This became a substantial barrier to economic progress in general of Nepal.[11]

The first Indo-Nepalese private collaboration was the opening of Biratnagar Jute Mill with an initial investment of Rs.1.5 million in 1936. Since then, most of the Nepalese trade and commerce had been in the hands of Indian merchants. Some enterprising Marwari merchants from India having Nepalese nationality emigrated to Nepal because the then law forbade ownership of property and enterprises by the foreigners. It was only with the special sanction of Nepal government that Indians were permitted to start industries and business in Nepal. In practice, however, the law was difficult to enforce as it was difficult to distinguish between a Nepali and an Indian. As most of the Nepalese industries then depended on India for marketing, most of the Nepalese industries were located in eastern terai particularly in Biratnagar area. India also arranged for immediate shipments of Nepalese goods to overseas. Thus, the majority of industrial entrepreneurs were the Indian businessmen who worked in close partnership with the wealthy Ranas of Nepal.[12]

After 1936, a number of joint stock companies were pioneered by the Indian merchants in collaboration with local initiative and capital. They were based on special agreements restricting the participation of the foreign capital upto 50 per cent of the equity and debenture capital.[13]

Indian private capital in Nepal were initiated in 1956 when the Chamaries - a well-known financer of Marwari family from Calcutta - were encouraged to take up the Managing Agency of the Biratnagar Jute Mills Ltd. The successful venture of this attempt attracted other financiers, but none of them were able to initiate a substantial industrial ventures.

Towards the end of the Rana regime, the Chamaria Group had been achieved notable success in operating jute, cotton and sugar mills of Biratnagar. The total Indian investment in the joint-stock enterprises of Nepal during this period was Rs.5.8 million and India's participation had been nearly 50 per cent of the total authorised capital of the concerns.

In the subsequent years, the investment pattern underwent change. The share capital of Biratnagar Jute Mills was increased to Rs.52 lakhs while the Indian shares of Rs.14 lakhs in Raghupati Jute Mills were purchased by Nepal government. The Managing Agency of Morang Cotton Mills has been acquired by an Indian Firm - Morang Trading Company. Besides, the direct investments in shares, Indian financiers have also supplied considerable capital through loans and debentures. In order to make them profitable, most of the industries had taken Nepalese ~~share~~ for mutual benefit.

With the dawn of planned era (i.e. in the sixties) in Nepal, a new phase ~~has~~ started in Indo-Nepalese capital transactions. An agreement was signed between big Indian industrialist - the Birlas and the government of Nepal to establish Indo-Nepal Industrial Corporation in February, 1962. It aimed to set up cotton textile mill and other business in Nepal. Accordingly, the construction of a cotton textile mill was initiated at Hetauda, financed by Birla brothers and equipped with machinery manufactured in this country. As a special incentives Nepal allowed 12 year tax holiday and 8 year excise exemptions and guaranteed no nationalisation for 41 years and also assured of full compensation in case of such event.[14] However, by 1967 the Birlas abandoned the Rs.25 million cotton textile project after raising the factory building upto roof level at Simra near Birganj. The construction of the mill had to be given up following a rise in the cost due to revaluation of Nepalese currency in 1966.[15]

In September, 1963, a six member team of Federation of Indian Chambers of Commerce and Industry (FICCI) visited Nepal to explore industrial prospects in Nepal and showed their willingness to set up some industrial units there. The government of Nepal offered to provide them with land, foreign exchange, tax relief, power and tariff protection. In the meantime, India organised an industrial exhibition in Nepal in 1965 in order to make the industrialists of both the countries aware of each other requirements and opportunities in technological and commercial fields. The government of India further allowed concessions to the desirous Indian investors in Nepal by providing a tax concession of 25 per cent on the dividends received by Indian companies on such investments under the Finance Act of 1966-67. Further, it extended concessions of royalities, commissions and fees payable on such enterprise.[16]

The "Golcha" is another major business house from India who has been actively involved in the industrialisation of Nepal. It established a medium-sized modern woolen mill at Kathmandu with 4800 spindles involving an investment of Rs.20 million. Since 1964 this firm had set up a Catechu factory at Nepalganj in the terai with a capacity of 20 tonnes per day.[17] However, this business concern had to forego its partnership of these units as it was declared a defaulter in the repayment of a Yen loan secured on government's surety.[18]

The Prabhat General Agencies was another firm who took on lease Nepalese forests for a period of 20 years to manufacture 5 thousand tonnes of resin and one thousand tonnes of turpentine each year. Initially, the company invested a capital of Rs.5 lakhs which was later increased to Rs.5 million in 5 years. The products were used in paper, soap, textile, paints and chemical industries.

The Sahu-Jain Group was a private investor who received the permission to open a sugar mill near Krishnanagar with a daily capacity of crushing one thousand tonnes of sugarcane in 1963. The Suman Industries planned to establish a plastic goods factory with a capital of Rs.5 lakhs. It would produce 25 thousand piece of combs and other materials per month. A starch and glucose factory owned by M/S. Dhirajlal Brijlal of Calcutta was permitted to instal in Nepal with a capital of Rs.5 crores to produce 1270 tonnes of storch ~~and~~ and glucose annually.[19]

Another Indian industrialist N.A. Bidya was allowed to establish a factory for producing flour as well as vegetable ghee at the cost of Rs.12.5 million in Hetauda. NIDC agreed to sanction a foreign exchange loan amounting to Rs.8.5 million to finance the import of machinery and some other raw materials.

In addition to the above mentioned Indian ventures in Nepal, the following ventures were undertaken by the Indian private investors in Nepal upto 1966.

Table 4.1

Sl. No.	Name of the Party	Total Capital investment (Rs. lakhs in NC)	Loan advanced by the NIDC (Rs. lakhs in NC)
1.	M/S. Indo-Nepal Industrial Corporation, Simara.	280	60
2.	M/S. Bharatidun (P) Ltd. Nepalganj.	16	9.12
3.	M/S. Ashoke Textile(P) Ltd., Biratnagar.	45	6.07
4.	Cold Storage and Ice making Plant	14	7.06

To overcome the major constraints of capital, government of India and the government of Nepal signed an agreement in September, 1964, providing a loan of Rs. One crore (10) at the rate of 3 per cent interest. This was mainly to promote small and medium scale industries in Nepal.[20]

In 1969, the total Indian investment in Colombo Plan countries was Rs.29.42 million out of which Rs.8 million went to Nepal, i.e., Nepal occupied a share of 26.2 per cent of the total.[21]

In January, 1977, the Birla Group of industries obtained a licence for the establishment of a sugar factory in Kapilabastu district in Nepal in collaboration with a private Nepali industrial entrepreneur. The Nepali firm held 50 per cent of the shares. The capacity of the sugar factory was fixed to be one lakh bags annually.

At present Indian private investment in Nepal is being confined to seven ventures, one each in brewary, manufacture of ghee, production of dry cells, conversion of wood into splinters and in hotel business and two are engaged in mining operations.[22]

India's Joint Ventures in Nepal : The term 'joint ventures' has been defined as a form of association, including commercial industrial collaboration, in which two or more countries share responsibilities for the operation of a company by providing risk capital, good-will, know-how and management in an agreed manner. It is generally felt that the cost of private investment and transfer has been very high. Many of these investments and transfer of technology have been also inappropriate. Recognising the need for co-operation among developing countries, India, although a capital scarce country, began a policy of allowing Indian investment in a selective manner to go various developing countries. Moreover, India recognised the role of India's joint ventures abroad as a part of export promotion strategy and as an instrument for forging close economic ties with other developing countries. It also enables India to find markets for its capital goods, products and also gives it a base for earning foreign exchange in the near future.[23]

A milestone in the relations between India and Nepal was reached in September 16, 1978. Under a memorandum of understanding signed between the two countries, India would set up joint industrial ventures in Nepal and Rs.180 crores have to be invested on such joint industrial projects. This includes a Rs.80 crores cement plant at Udaipur in Nepal with daily production of 1,500 tonnes of cement and Rs. 60 crores paper plant in far western Nepal. A Clinker plant in Lakshipur in Nepal will produce 3,000 tonnes of Clinker with

50 per cent of it to be converted into cement for domestic consumption and the balance to be exported to India for grinding at Samastipur in Bihar. One of the objectives behind these joint ventures is to reduce trade deficit between the two countries.[24]

The Indian industrialists, inspired by the offer of the liberal new Industrial Policy, 1981, are operating about 22 joint ventures with their Nepalese counterparts in the sphere of textiles, transport, vehicle, engineering, appliance, food products, alcohol, mineral, hotelling, and soft drinks, etc. This will provide a new ~~fill up~~ incentive to industrial and technological development in Nepal and by that way help in strengthening the Nepalese economy. The following description of some of the joint ventures in the industrial field of Nepal will give an idea about their area of collaboration and Indian share-holding, etc.

1. Triveni Engineering Workd Ltd., New Delhi, got approval on 28.7.76 to establish a sugar mill in collaboration with Nepalese entrepreneurs. Out of the total equity capital Rs.215.75 lakhs, the Indian equity was fixed at Rs.105.75 lakhs.

2. Upper Ganges Sugar Mills, Calcutta, also

received approval on 22.11.76 to set up a sugar mill at Nepal jointly with Nepalese enterprises. Indian equity capital was fixed at Rs.100 lakhs out of the total equity of Rs.200 lakhs.

3. India's famous Oberoi Hotels Pvt. Ltd.,Calcutta, (OA* : M/S. Hotel Soaltee Oberoi, Kathmandu) with the approval on 7.5.77 to run a hotel at Nepal started on Nov., 1978. Out of the total cost of NRs. 98.5 million, India's share was 8.48 per cent. Indian party is fully responsible for managing and running the hotel. No dividend has so far been declared on account of restrictions imposed by the financial institutions. N Rs. 27.4 lakhs earned as technical know-how fee has been capitalised towards equity. The Indian party also received NRs. 21 lakhs as managerial fee and bonus shares of value of NRs.4.24 lakhs.

4. M/S. Hyderabad Asbestos Cement Products Ltd., Hyderabad (OA : M/S. Nepal Co.Ltd., Kathmandu), a Birla concern of India is associated with exploration of minerals of Nepal. This party received approval on 5.10.77. Only 25 per cent of the total equity (NRs. 6 million) will be controlled by this party. Another 25 per cent will be borne by Golden Moffit and Associates, an U.K. company. It is understood that HMG and the Nepalese people will control the rest 50 per cent of the total equity of this venture and eventually HMG will hold 49 per cent of the total.

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*OA : Overseas Address.

5. On 12.10.77 Messers ITC Ltd. (Hotel Division) Hotel Maurya, New Delhi, was approved to build a hotel and was likely to go into operation by November, 1982. Only 8.04 per cent of the total equity NRs. 7.40 million was allowed to share by this party.

6. M/S. Orissa Industries Ltd., Rourkella (OA : M/S. Nepal Orind Magnesite (P) Ltd., Kathmandu), is sanctioned approval on 11.7.78. This would be run jointly by HMG for mining of magnesite and manufacturing or refractories. This party of India has shared 50 per cent of total equity NRs.41 million. The joint venture has an annual capacity of production of 50 thousand tonnes of dead burnt magnesite. For technical know-how, an agreement with Haribinger Walker, an American Co., has been reached.

7. An Indo-Nepalese collaboration on vegetable ghee is also under implementation which was approved on 18.9.78. This enterprise was undertaken by M/S. Chemical Construction Company Pvt. Ltd., New Delhi. The Indian Share which was allowed to this party was 25 per cent of the total equity NRs.10.34 million.

8. A joint venture between Union Carbide India Ltd., Calcutta and entrepreneurs in Nepal which got approval on

19.12.80, will set up Nepal Battery Company (NBCL) at Balaju, Kathmandu, with a capacity of 12 million dry batteries annually on a single shift basis. The total cost of this enterprise is estimated at NRs.2.25 crores and is expected to be completed in 1984. India's share is as high as 77.4 per cent of the total cost of production of the project. With the experience of 60 years in the business of producing dry batteries, the Union Carbide India Ltd. with be extending technical know-how in several areas including work control, product standards, pollution control methods and ancillary package. Thus, the firm will be continuing to train NBCL personnel with a view to total transfer of technology.

9. With the approval on 28.12.81 M/S. Mohan Meakin Ltd., New Delhi (OA : M/S. Himalayan Brewery, Kathmandu), started production in 1983 to manufacture and bottling of beer at Nepal. The project is co-promoted by the HRH Prince Shobha Shaha and Associates of Nepal. It has a licensed capacity to produce 15 thousand hecto litres per annum. India's share of 20 per cent of total equity NRs. 8.26 million is sanctioned.[25]

Thus, we see that joint ventures -- another form of Indian private investment are gradually gaining momentum in Nepal. It signifies a new development in the Indo-Nepalese economic co-operation.

India's Aid for Industrialisation in Nepal : Indian aid to Nepal is significant in the field of industrialisation. It may be stated here that earlier industrial development was not taken as an integral part of over-all economic development of the country. The spoon-feeding measures undertaken in Nepal failed to transform the economy from her condition of backwardness and most of the earlier ventures in the industrial field yielded disappointing results. But India realised the importance of industries in the economic development of Nepal, and began to give its assistance for industries as well.[26]

Three industrial estates which have been set up with India's assistance are Patan at the suburbs of Kathmandu Valley, Nepalganj and Dharan. These house a large number of traditional and non-traditional industries like cotton and nylon hosiery, dry cell batteries, plastic products, hardwares, electrical goods, woollen carpets, wooden and steel furnitures. Since 1960, these estates have grown into thriving centres. Nepal and India have exchanged letters to expand Patan Industrial Complex, the first phase of which was inaugurated by the king of Nepal in 1963, at an estimated cost of Rs. 17.4 lakhs. A 17-shed industrial estate constructed in Nepalganj at the cost of Rs.5.14 million came into operation from March 1975. The Dharan industrial estate constructed at the cost of Rs.2.8 million was handed over to Nepal on 15 December, 1975. The estate accommodated factories producing Leather shoes, Laundry soap, cotton thread, zarda, tobacco and metal goods.[27]

In 1964, India provided a loan of Rs. One crore(IC) to establish light engineering industries, viz., paper, jute, cement, texties, etc.[28]

On February, 1974, during the visit of a Five-member delegation led by Dr. Harka B. Gurung, Vice-Chairman of N.P.C. of Nepal to New Delhi for holding talks of Indo-Nepalese co-operation, India offered to open cement, sugar and ancillary engineering plants in Nepal. One significant point in this regard is that Nepali experts will be associated with every stage of the execution of projects started in Nepal through Indian co-operation, so as to promote the goals of self-reliance and mutual co-operation.[29]

India and Nepal have also recently (Oct. 1982) agreed in principle to form a joint industrial committee of high-level officials who would identify area of industrial co-operation in governments and private sectors.[30]

<u>Problems regarding India's Investment in Nepal</u> : Indian investment in Nepal has always been used in the perspective of Nepalese industrial development. But it is very negligible in Nepal compared to the potentiality and capacity of Indian business houses. There are various reasons that hindered the growth of Indian investment in Nepal. One basic reason is that Indian private entrepreneurs were mostly engaged in India large as it provided a potential market for their investments. India has already developed its basic infra-structure and congenial atmosphere for the private investments.[31]

Secondly, private investment in Nepal is subject to greater risks and uncertainty because of frequent changes in government policies, the inefficient and lethargic administrative apparatus, the volatile relationship with India and the relatively short-term trade and transit treaty with India.[32]

Third, the landlockedness of the country and limited purchasing power of the majority of the people and thus small size of the domestic market have impeded the scope of establishing large-scale manufacturing industries in Nepal.

Fourthly, Indian private investment in Nepal is shy perhaps because of the fact that till now it has been more profitable for Indian entrepreneurs and businessman to trade with Nepal rather than to invest directly in it.

Fifth, the inadequate infra-structure relating to energy, roads and communications have slowered the movements of Indian investors into Nepal. These created problems of procurement of raw materials and marketing of final products. That is why we find the concentration of Nepalese industries in Kathmandu valley and eastern zone of terai, i.e., mainly in Biratnagar area. There is easy intercourse with Indian in terms of marketing and availability of raw material and free use of Indian currency in these border areas of terai.[33]

Again, far from encouraging Indian investors, Nepal's National Panchayat passed an official resolution laying down that no foreigners will be allowed to set up new mills and factories in Nepal within three-mile radius of the border.[34]

Sixthly, Indian capital outflow into Nepal was also restricted because domestic investments were not fully saturated, i.e., local capital becomes surplus or can not be fully utilised at home which is far from being the case in India. Thus, inspite of the best intentions and promising opportunities, there is no significant inflow of Indian capital into Nepal.[35]

Seventh, the adverse attitudes of Nepalese business magnates further kept away the Indian private investors into

Nepal. When the Nepalese Prime Minister advised the Nepalese industrialists at the Sixth Session (1972) of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) to establish industries in collaboration with foreign capitalists, there were widespread repercussions in the press. The two noted papers in Nepal commented, 'In the light of the manner in which Indian business have been continuing their economic exploitation of Nepal, we wonder whether we should encourage foreign capitalist in Nepal. The industries set up by Indians have not benefited Nepal. The huge profits made by them are repartiated abroad without payment of taxes. This will only foster a semi-colonial economy in Nepal'.[36]

There are instances in which Indian investors' selfish and harmful motives and attitudes have been exposed. The main purpose of the Indian investors was the evasion of income or other taxes on their black money in India and to acquire quick profit from such investments. They were not eager or interested in industrialisation of Nepal. Thus, the Indian investors were keen to produce synthetic fibre and stainless steel which were totally irrelevant to the needs and requirements of Nepal. These were further exposed when Birla brothers, the famous Indian industrialists, backed out of their commitments to set up a textile industry in Nepal.[37]

The President of the FNCCI said in its 13th session

(11 June, 1979) that 'ambiguous rules and regulations, vague programmes and policies and faulty implementation of programmes have dampened the entrepreneurial spirit in the country.'[38]

The Nepal Rashtra Bank Survey (1976/77) shows that a large number of industries have not been able to avail of the concessions provided by the industrial policy. This is chiefly due to the inept administrative system lacking competence, integrity and honesty in effectively executing the discretionary operational measures. Moreover, the lack of co-ordination between Ministers and Departments have created confusions. The whole mechanism of getting things done and getting the benefits and concessions are thus obvious source of harassment to the entrepreneurs. Industries have to wait for a considerable time even for minor decisions which retarded the growth and dampened the incentives of the entrepreneurs. The root cause of this unnecessary delay in getting things done and arbitariness in decisions and activities appear to be the corrupt attitudes of some officials both at the lower and higher levels of administrative hierarchy.[39]

There are also problems regarding the government policies which are responsible for creating constraints in Indian investment in Nepal. First, the government of Nepal has not cleared the dividing line between the public and private sectors. Though it is stated that the public sector will deal with defence-related industries and public utilities, in reality it has been involved in a number of private enterprises, such as, jute, sugar, cigarettes, bricks. All these industries were established with the foreign assistance, and it appears that any enterprise with foreign aid will be state concern. Thus, the private sector found a competition with the public sector and they invest other than industry like trade, etc.

Secondly, the government of Nepal has taken very simplistic view of the private sector. Programmes and targets of industrial development to be carried out by the private sector are fixed from above with the exception that the private sector would automatically respond the government's call. This is a very erroneous approach because it fails to recognise that the actual investment in industrial enterprises is influenced by the decisions of individual investors and not by planners. Besides, the top-down approach of planning fails to correctly capture to private sector's interests and came to grip with the forces governing its investment decision and behaviour. Furthermore, the industrial plans have been constructed as financial plans with little regard to physical aspects. A number of private sector industries were proposed to set up under the Fourth and Fifth Plans, for example, with assurances of financial assistance from NIDC, but the plans have failed to mention even a single word regarding how the raw materials would be provided and how the proposed industries would be made viable. Under such circumstances, it is natural that the private sector may be ~~shy away~~ reluctant from undertaking industrial enterprises in Nepal.[40]

As regards to financial assistance, there are problems and private investors are not helped much by the financial institutions of Nepal in general. For example, NIDC was formed to provide financial and technical assistance to private investment initiatives in industrial ventures that have been given priority in the plans. But in practice, the institution has tended to focus its lending operations to a few industrial fields notably hotels and other ventures that command only a secondary importance from the viewpoint of national interest. A study of seven years (1973-80) shows that a high concentration of credit facilities by the NIDC has been done on hotels followed by miscellaneous group like rice and oil mills while the share of manufacturing sector has remained very low (Table 4.2). Although the hotel industry constitutes the linchpin of tourism sector which has been the single important source of foreign exchange earnings, the question is whether this can be considered as a sound trend of industrialisation and whether the foreign exchange earned by this sector is largely wasted out of the country in order to pay for imports. So long as tourism constitutes to be in the upswing, hotel industry has bright prospect. But, if tourism faces any economic crisis or socio-political disorders at home or abroad, the expanded capacity of hotel business may prove to be a net burden to the society and the economy of Nepal. Further, a study shows that about 35 to 40 per cent of gross earnings from the hotel sector leaks out of the country for paying the import bills of the industry itself.[41]

Table 4.2 A

Loans Disbursed by NIDC classified by Industry
(Rs. in Millions)

	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80
Manufacturing Industry	9.9	18.9	9.4	6.4	7.0	11.4	10.9
Transport	1.1	9.3	0.5	0.4	-	-	-
Electricity	0.1	-	-	0.7	-	-	-
Hotel	6.7	17.4	14.2	27.1	27.7	22.3	30.3
Services	0.9	0.7	0.3	1.2	0.3	0.3	1.6
Miscellaneous	4.4	7.5	12.5	16.1	22.3	9.6	2.7
Total	23.1	53.8	36.9	51.9	58.2	43.6	45.4

Source : Nepal Rashtra Bank, Kathmandu.

Table 4.2 B

Financial Assistance of NIDC Classified by Industry.

(Rs. in Millions)

Item	Mid-July			
	1980	1981	1982	1983
Direct Loans	251.2	281.8	299.3	315.9
(a) Manufacturing	51.8	57.3	62.3	90.3
(b) Transport	7.1	6.6	6.4	5.9
(c) Electricity	0.2	-	-	1.0
(d) Hotel	118.5	144.7	157.8	156.6
(e) Services	3.6	4.1	4.1	5.5
(f) Miscellaneous	70.0	69.1	68.7	56.6
Guarantee for Loans	22.9	23.3	26.8	37.4
(a) Manufacturing	10.7	11.1	11.1	11.6
(b) Hotel	1.1	1.1	5.6	6.1
(c) Miscellaneous	11.1	11.1	10.1	19.7

Source : Nepal Rashtra Bank, Kathmandu, Nepal.

Thus, we find that NIDC has failed to emerge as a powerful financial institution for promoting private investment in key industrial fields of Nepal.

SUMMARY

Since the beginning of the Planning Nepal has been adhering to the principle of 'mixed economy' for the development of the country. This implies that both the public and the private sector plays an active and important role in all aspects of the national economy. In the field of industries, the policy is to encourage private sector - both home and foreign in various fields of manufacturing other than defence and public utilities which are strictly reserved for the public sector. The Industrial Policy of 1981 has also put a reservation of ownership and investment in small-scale and cottage industries to Nepalese nationals only. The policy thus envisages a supportive and harmonious relationship and activities between the public and the private sectors in building up the country's industrial sector. In this process, the entire responsibility is taken by the government/planners in fixing the programmes and targets for the whole economy and dividing them between the two sectors. The private sector is expected to take up the programmes and meet the targets set by the government.

~~Though it is stated,~~ There does not, however, exist a clear dividing line between the public and private sectors. The public sector in Nepal has been involved in a number of enterprises which have private counterparts, i.e., jute, sugar, bricks, cigarettes. Since all these enterprises operating in the public sector have been set up with foreign assistance, it appears that any enterprise with foreign aid will be the State concern. This situation ensures the danger of public sector competition to the private sector and they tempted to invest in areas other than industrial enterprises, e.g., trade, etc.

However, the new industrial policy of Nepal as enacted in 1981, have removed the shortcomings of the old policy and provided with provisions of some liberal policies to encourage private sector and foreign investment. Foreign investment is said to be encouraged through governmentprotection no nationalisation pledges, remittance in fofeign currency of all profits earned and 20 per cent per annum of invested capital. Under the new policy, the cottage industries can enjoy income tax rebates for 6 years and the large industry's income tax rebates is said to be based on value added with additional rebates for industries producing necessary goods and export promotion industries. Concessions in the custom and excise duties have been extended particularly to industries located in the less developed areas of the country.

To attract private sector involvement in industrialisation of Nepal by providing capital requirements and technical assistance, the NIDC was set up in 1959. But in practice, the NIDC have failed to emerge as powerful financial institution for promoting private investment in the key industrial fields of Nepal as its lending operations have concentrated to notably tourism-related hotel construction, and other travel agencies and trading transport companies ventures which command secondary importance from the point of national interest.

Private foreign investment has been generally shy in Nepal. Prior to 1956, the process of industrialisation was left to the private hands with little, if any, government interference. With the advent of planning, government policies and actions have encouraged private investment to a larger extent.

Indian private investment in Nepal initiated since 1956 has always been seen in the perspective of Nepalese industrial development. But still Indian investments have remained shy in Nepal. There are various constraints for expansion of Indian investments in Nepal. Of them poor infra-structural facilities and land-lockedness of the economy, unstable political situation and poor potentiality of markets of their products are prominent. Besides these, the adverse attitudes of Nepalese business magnates also kept away the Indian private investors. Of course, the Indian investors are also not always free from their selfish motives and harmful activities.

Another form of Indian private investment, i.e., joint ventures are gradually gaining importance in Nepal. It signifies a healthy development in the Indo-Nepalese economic co-operation. About 22 industrial joint ventures have been launched so far. There are many potential fields which can be brought into arena of joint ventures, such as, processed fruits, mushroom, leather, hides and skins, skimmed milk powder, forest products, tea, jute, carpet, textiles, cement, oilseeds etc. These joint ventures must be conceived with a view to securing the large Indian markets. It will increase the income of Nepalese and decrease the dependence on India as well. India and Nepal has agreed recently (1982) in principle to form joint committee to identify the area of industrial ventures both in public and private sectors. This type of frequent consultations and exchange of experts ~~and capitalists~~ may largely create an atmosphere for more participation of Indian investors in Nepal.

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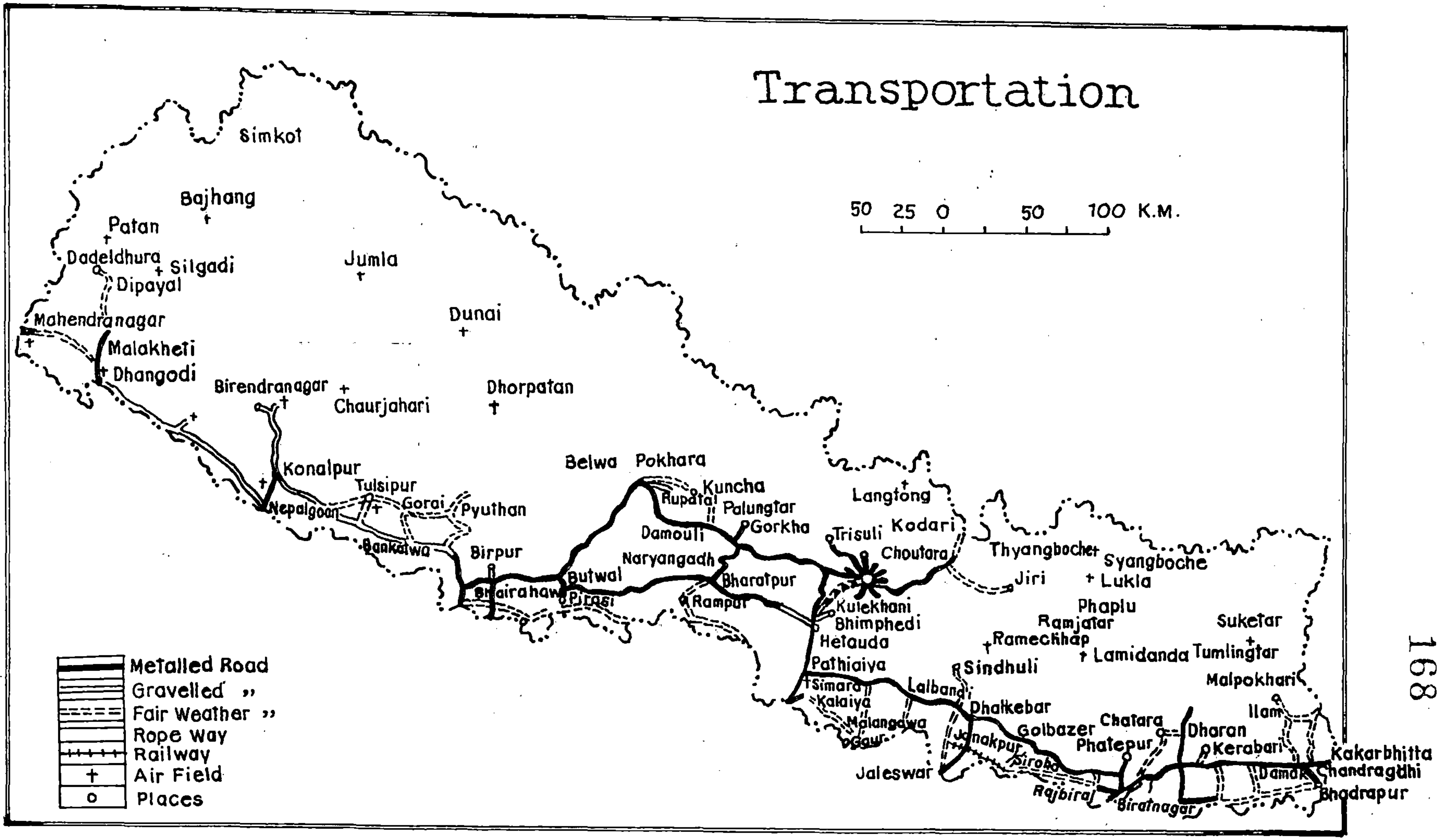
Transportation
50 25 0 50 100 K.M.
Simkot
Bajhang
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Dunai
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Malakheti
Dhangodi
Birendranagar
Chaurjahari
Dhorpatan
Konalpur
Nepalgoan
Tulsipur
Gorai
Pyuthan
Bankatwa
Birpur
Belwa
Pokhara
Kuncha
Rupatal
Palungtar
Gorkha
Damouli
Naryangadh
Butwal
Bhairahaw
Pirasi
Bharatpur
Rampur
Trisuli
Langtong
Kodari
Choutara
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Hetauda
Pathlaiya
Simara
Kalaiya
Malangawa
Gaur
Jaleswar
Lalband
Sindhuli
Ramechhap
Ramjatar
Phaplu
Thyangboche
Syangboche
Jiri
Lukla
Lamidanda
Suketar
Tumlingtar
Malpokhari
Ilam
Dhalkebar
Golbazer
Chatara
Dharan
Phatepur
Kerabari
Janakpur
Siraha
Rajbiraj
Biratnagar
Damak
Kakarbhitta
Chandragadhi
Bhadrapur
Metalled Road
Gravelled ,,
Fair Weather ,,
Rope Way
Railway
Air Field
Places